

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2013-3-E - ORDER NO. 2013-696  
SEPTEMBER 30, 2013

IN RE:	Annual Review of Base Rates for Fuel Costs	)	ORDER ACCEPTING
	of Duke Energy Carolinas, LLC	)	SETTLEMENT
		)	AGREEMENT AND
		)	APPROVING FUEL
		)	COSTS
		)	
		)	
		)	

**I. INTRODUCTION**

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the annual review of base rates for fuel costs of Duke Energy Carolinas, LLC (“Duke” or the “Company”). The procedure followed by the Commission is set forth in S.C. Code Ann. § 58-27-865 (Supp. 2012), which provides for annual hearings to allow the Commission and all interested parties to review the prudence of the fuel purchasing practices and policies of an electrical utility and for the Commission to determine if any adjustment in a utility’s fuel cost recovery mechanism is necessary and reasonable.

On August 2, 2013, the Company filed the direct testimony of David C. Culp, General Manager of Nuclear Fuel Engineering for Duke; Robert J. Duncan, II, Senior Vice President of Nuclear Operations for Duke; Joseph A. Miller, Jr., General Manager of Strategic Engineering for Duke Energy Business Services, LLC; Kim H. Smith, Rates Manager for Duke; and, Sasha J. Weintraub, Vice President, Fuels & Systems

Optimization for Duke Energy Corporation (“Duke Energy”). Exhibits were included with the direct testimony of witnesses Culp, Duncan, Smith and Weintraub.<sup>1</sup> Duke was represented by Brian Franklin, Esquire, and Frank R. Ellerbe, III, Esquire.

The South Carolina Energy Users Committee (“SCEUC”), represented by Scott Elliott, Esquire, filed a Petition to Intervene on April 23, 2013. The South Carolina Office of Regulatory Staff (“ORS”), automatically a party pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2012), was represented by Shannon Bowyer Hudson, Esquire, and Courtney D. Edwards, Esquire.

On August 15, 2013, SCEUC filed the direct testimony and exhibits of Kevin W. O'Donnell, President of Nova Energy Consultants, Inc.,<sup>2</sup> and ORS filed the direct testimony of Gaby Smith, Auditor, and Michael L. Seaman-Huynh, Senior Electric Utilities Specialist. Exhibits were included with the direct testimony of witnesses Smith and Seaman-Huynh.<sup>3</sup>

The Company filed rebuttal testimony of Company witness Will A. Garrett, Director of Accounting Research for Duke Energy, and rebuttal testimony and exhibits of Company witness Smith on August 20, 2013.<sup>4</sup> Surrebuttal testimony was filed by SCEUC witness O'Donnell on August 22, 2013.

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<sup>1</sup> Composite Hearing Exhibit 2 consists of the Revised Direct Testimony Exhibits Culp 1 and 2 of David C. Culp; Composite Hearing Exhibit 3 consists of the Direct Testimony Exhibits Duncan 1 through 3 (including Exhibit Duncan 3 redacted and confidential versions) of Robert J. Duncan, II; Hearing Exhibit 5 consists of the Direct Testimony Exhibits Smith 1 through 7 of Kim H. Smith; Hearing Exhibit 4 consists of the Direct Testimony Exhibits Weintraub 1 and 2 of Sasha J. Weintraub.

<sup>2</sup> Composite Hearing Exhibit 9 consists of the Direct Testimony Appendix A of Kevin W. O'Donnell.

<sup>3</sup> Composite Hearing Exhibit 10 consists of the Direct Testimony Exhibits GS 1 through 7 of Gaby Smith and Composite Hearing Exhibit 11 consists of the Direct Testimony Exhibits MSH 1 through 14 of Michael L. Seaman-Huynh.

<sup>4</sup> Composite Hearing Exhibit 6 consists of Smith Rebuttal Exhibit A of Kim H. Smith.

ORS filed a Settlement Agreement (“Settlement Agreement”) with the Commission on behalf of ORS and Duke on August 20, 2013. The Company filed supplemental testimony in support of the Settlement Agreement of Company witness Weintraub on August 22, 2013. On September 19, 2013, ORS, Duke and SCEUC (“Settling Parties”) submitted a Revised Settlement Agreement (“Revised Settlement Agreement”). With the Revised Settlement Agreement, all parties to this proceeding are in agreement and there are no remaining contested issues.

## **II. JURISDICTION OF THE COMMISSION**

In accordance with S.C. Code Ann. § 58-27-140(1) (Supp. 2012), the Commission may, upon petition, “ascertain and fix just and reasonable standards, classifications, regulations, practices or service to be furnished, imposed, observed, and followed by any or all electrical utilities.” Further, S.C. Code Ann. § 58-27-865(B) (Supp. 2012) states, in pertinent part, that “[u]pon conducting public hearings in accordance with law, the [C]ommission shall direct each company to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the [C]ommission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period.” Consistent with the requirements of S.C. Code Ann. § 58-27-865(B) (Supp. 2012), the Commission convened an evidentiary hearing to determine the reasonableness of the Settling Parties’ agreement and whether acceptance of the Settlement Agreement is just, fair and in the public interest.

## II. DISCUSSION OF THE HEARING

The Commission conducted an evidentiary hearing on this matter on August 27, 2013, in the hearing room of the Commission with the Honorable G. O’Neal Hamilton presiding. At the outset of the hearing, ORS counsel described the Settlement Agreement. The Settlement Agreement was accepted into the record as Hearing Exhibit 1. Prior to the hearing and without objection from SCEUC, the Commission granted Duke and ORS permission to utilize panels for the presentation of witnesses.

Duke’s first panel consisted of witnesses Culp, Duncan, and Miller. Company witness Culp provided information regarding the Company’s nuclear fuel purchasing practices and costs for the review period and described changes expected in the 2013-2014 forecast period. Company witness Duncan discussed the performance of Duke’s nuclear generation fleet during the review period. He reported to the Commission that Duke achieved a net nuclear capacity factor, excluding reasonable outage time, of 102.53% for the current period, which is above the 92.5% set forth in S.C. Code Ann. § 58-27-865 (Supp. 2012). Company witness Miller discussed the performance of the Company’s fossil-fueled and hydroelectric generating facilities during the period of June 1, 2012, through May 31, 2013 (“Review Period”), and their operating efficiency during this review period. Witness Miller testified that Duke’s generating system operated efficiently and reliably during the review period.

Duke’s second panel consisted of witnesses Garrett, Smith, and Weintraub. Company witness Garrett explained the accounting implications and negative consequences of deferring the fuel increase as proposed in the direct testimony of

SCEUC witness O'Donnell. He stated that O'Donnell's proposal should not be adopted or approved because there would be a direct and negative impact of \$30-35 million to Duke's financial results and reported net income, and the Company would report lower earnings in the period due to not being able to collect the (under)-recovered fuel costs.

Company witness Weintraub discussed the performance of the Company's natural gas supply procurement practices for the Review Period and provided anticipated market conditions for the billing period of October 1, 2013, through September 30, 2014 ("Billing Period"). Witness Weintraub testified regarding Duke's fossil fuel purchasing practices and costs for the Review Period and described related changes forthcoming in the Billing Period.<sup>5</sup>

Company witness Smith testified regarding the Company's procedures and accounting for fuel, actual fuel costs and actual environmental costs incurred for the Review Period, and the associated over/(under)-recovery of such costs, estimated as of September 30, 2013. Witness Smith also testified to the manner in which the Company had projected its fuel and environmental costs for the period June 1, 2013, through September 30, 2014, and used such projections in developing its proposed fuel factors. She explained that in compliance with S.C. Code Ann. § 58-27-865(A)(1) (Supp. 2012), the Company calculated an environmental component for the Residential, General Service/Lighting, and Industrial customer classes. Environmental costs, and any associated over/(under)-recovery balance of environmental costs, are allocated among the three (3) customer classes based upon firm peak demand. The resulting allocated costs

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<sup>5</sup> Hearing Exhibit 8 consists of a late-filed exhibit requested by Commissioner Whitfield for the Company to provide the firm peak demand date.

are converted to the environmental component for each class expressed in cents per kilowatt hour (“kWh”) and added to the fuel component. Next, witness Smith proposed in her direct testimony the combined fuel factors of 2.2696 ¢/kWh for Residential customers, 2.2447 ¢/kWh for General Service/Lighting customers, and 2.2307 ¢/kWh for Industrial customers.

Witness Smith testified, on behalf of the Company, that the Merger Fuel Savings Decrement Rider (“MFS-Rider”) will continue to pass fuel savings to the South Carolina retail customers until the MFS-Rider expires on September 30, 2013. As a result of the expiration of the MFS-Rider, the proposed combined projected fuel factor includes the impact of the joint dispatch and other merger related fuel savings.

Lastly, in recognition of the Settlement Agreement, the Company agreed to provide the Commission with revised Smith Direct Exhibits to reflect the Company updating the forecasted costs for coal and natural gas.<sup>6</sup>

Following the Company witnesses, SCEUC’s witness, Kevin O’Donnell, testified that Duke failed to communicate with the members of SCEUC and reported an industrial forecast increase of only .1% to 5.8% for the Billing Period, even though Duke later filed testimony with a 6.8% increase for the Industrial class. On cross examination by the Company, witness O’Donnell agreed there had been correspondence between the Company and SCEUC and that the settlement amount was lower than the 5.8%. He also testified that the Commission has previously approved a phase-in for fuel costs in Order No. 2011-319, Docket No. 2011-2-E. On cross examination by the Company, witness

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<sup>6</sup> Hearing Exhibit 7 consists of a late-filed exhibit requested by Commissioner Fleming for the Company to update Kim H. Smith’s Exhibits 1 through 7 to reflect the new forecasted costs for coal and natural gas and the July 2013 over/(under) collection to actual values.

O'Donnell agreed there is no prior precedent for the Commission to order Duke against its will to accept a two year phase-in.

ORS presented its panel which consisted of witnesses Smith and Seaman-Huynh. Witness Smith testified that ORS analyzed the cumulative over-recovery of base fuel costs that Duke had incurred for the Review Period totaling \$25,476,878. She stated that the May 2013 balance includes an over-recovery adjustment of \$1,699,158 for replacement power due to an extended outage and an over-recovery adjustment of \$106,371 to account for minimum weight penalties credited back to South Carolina ratepayers. ORS added the estimated (under)-recovery of (\$7,906,048) for the month of June 2013, the estimated (under)-recovery of (\$7,595,304) for the month of July 2013, the estimated (under)-recovery of (\$9,940,556) for the month of August 2013, and the estimated (under)-recovery of (\$1,855,230) for the month of September 2013, to arrive at a cumulative (under)-recovery of (\$2,683,314) as of September 2013. September 2013 also includes an (under)-recovery adjustment for the sharing of fuel-related merger savings with Duke Energy Progress, Inc. of (\$863,054). ORS witness Smith stated that Duke's cumulative over-recovery for base fuel costs, per its testimony in this Docket, as of May 2013, totals \$23,670,477, and as of September 2013, the estimated cumulative (under)-recovery totals (\$4,489,948). The differences between Duke's and ORS's cumulative over-recovery as of actual May 2013 totals \$1,806,401, and the estimated cumulative (under)-recovery as of September 2013 totals \$1,806,634, which is due to adjustments and rounding.

ORS witness Smith testified to the cumulative over-recovery of environmental costs that Duke had incurred for the Review Period which totaled \$6,084,377. She stated ORS added the estimated (under)-recovery of (\$654,928) for the month of June 2013, the estimated (under)-recovery of (\$1,137,202) for the month of July 2013, the estimated (under)-recovery of (\$1,118,896) for the month of August 2013, and the estimated (under)-recovery of (\$759,903) for the month of September 2013. Additionally, ORS added an over-recovery adjustment of \$156,402 for the month of July 2013, an over-recovery adjustment of \$154,972 for the month of August 2013, and an over-recovery adjustment of \$112,762 for the month of September 2013, to remove gypsum expenses that were incorrectly included in the Company's estimated figures, to arrive at an estimated cumulative over-recovery of \$2,837,584 as of September 2013. Duke's rounded cumulative over-recovery for environmental costs, per its testimony in this Docket, as of May 2013, totals \$6,084,403, and as of September 2013, the rounded and estimated cumulative over-recovery totals \$2,413,420. The differences between Duke's and ORS's cumulative over-recovery as of actual May 2013 totals \$26, and the estimated cumulative over-recovery, as of September 2013, totals \$424,164 which is due to the adjustments for gypsum expenses and rounding.

ORS witness Seaman-Huynh presented direct testimony concerning the Company's fuel expenses and power plant operations. He testified to ORS's examination of the Company's fossil and nuclear fuel procurement, fuel transportation, environmental reagent purchases, nuclear, fossil and hydro generation performance, plant dispatch, forecasting, resource planning, purchased power, and the Company's policies and



procedures. Witness Seaman-Huynh stated that ORS agreed with the use of the chemicals and reagents to reduce the Company's nitrogen oxide ("NO<sub>x</sub>") and sulfur dioxide ("SO<sub>2</sub>") emissions and that the costs associated with those chemicals and reagents should be included in the Company's Adjustment for Fuel and Variable Environmental Costs as provided by S.C. Code Ann. § 58-27-865 (Supp. 2012). He also testified that two over-recovery adjustments should be made to the Company's base fuel costs in the amount of \$1,699,158 to recognize an additional dollar amount for replacement power due to the extension of a scheduled refueling outage at McGuire Unit 2 and \$106,371 to reflect penalties paid to CSX Transportation as a result of coal shipments that did not meet contractual train minimum weights.

In the Settlement Agreement, the Settling Parties agreed to all recommendations in ORS witness Seaman-Huynh's testimony and the accounting adjustments as put forth in ORS witness Smith's pre-filed direct testimony related to the over/(under)-recovery of base fuel costs and environmental costs.

Proposed orders were due on September 16, 2013, and were timely submitted. Subsequently, on September 19, 2013, all parties submitted a Revised Settlement Agreement signed by counsel for ORS, Duke, and SCEUC. Under the terms of the Revised Settlement Agreement all parties have reached agreement on all issues in this proceeding.

### **III. REVISED SETTLEMENT AGREEMENT**

Through the testimony and exhibits and the Revised Settlement Agreement presented to the Commission in this proceeding, the Settling Parties represent that all

issues between them in this case have been settled in accordance with the terms and conditions contained in the Revised Settlement Agreement, and that it is just, fair, reasonable, and in the public interest. The terms of the Revised Settlement Agreement are summarized as follows:

- (a) The Settling Parties agree to accept recommendations in ORS witness Seaman-Huynh's pre-filed direct testimony and all accounting adjustments as set forth in ORS witness Smith's pre-filed direct testimony and exhibits.
- (b) The Settling Parties have agreed, solely for the purposes of this proceeding, to a settlement adjustment of \$106,371 in order to address Duke's minimum weight penalties relating to fuel transportation. The minimum weight penalty adjustment of \$106,371 will reimburse Duke's South Carolina retail customers their allocable share, regardless of whether Duke is successful in a damages claim against the supplier. If Duke is successful in recouping the \$106,371 from the supplier, it will not be expected or required to return that amount to its South Carolina retail customers, as those customers already will have received that amount from Duke via the terms of this Settlement Agreement.
- (c) Duke agrees to reduce projected fuel costs by \$30 million in order to reduce the fuel rate during the one year billing period beginning October 1, 2013. Duke will be allowed to recover the actual over/under recovery balance beginning in October 2014. The parties agree that Duke will be allowed to charge and accrue interest on any deferred recovery amount.

The parties agree that Duke will be allowed to charge and accrue interest on the amount deferred for recovery during the year that recovery is deferred. The interest will be charged and accrued on a monthly basis on the amount that the Company would have billed but for the deferral. The applicable interest rate used to calculate the carrying costs under this Revised Settlement Agreement is the rate of interest as of the first day of each month during the applicable period for the 3-year U.S. Government Treasury Note, as reported in the *Wall Street Journal*, either in its print edition or on its website, plus an all-in spread of 65 basis points (0.65 percentage points). The applicable period during which carrying costs may be applied pursuant to this Revised Settlement Agreement begins October 1, 2013, and ends September 30, 2014. The total carrying costs rate to include the 65 basis points shall not exceed 6%.

- (d) The Settling Parties agree that the fuel factors contained in Paragraph 7 of the Revised Settlement Agreement represent the appropriate fuel costs, environmental costs, and combined projected fuel factors for Duke to charge for the period beginning with the first billing cycle in October 2013, through the last billing cycle of September 2014, by customer class as set forth in the following table:

Class of Service	SC Base Fuel Factor (cents/kWh)	SC Environmental Factor (cents/kWh)	SC Combined Projected Fuel Factor (cents/kWh)
Residential	2.0144	0.0509	2.0653
General/Lighting	2.0144	0.0302	2.0446
Industrial	2.0144	0.0193	2.0337

- (e) The Settling Parties agree that the Company's use of magnesium hydroxide, calcium carbonate, and other emission-reducing reagents in its power plants reduce the Company's NO<sub>x</sub> and SO<sub>2</sub> emissions; therefore, the Settling Parties agree that the costs associated with these chemicals and reagents should be included in the Company's Adjustment for Fuel and Variable Environmental Costs.
- (f) The Settling Parties agree that the fuel factors set forth in Paragraph 7 of the Settlement Agreement were calculated consistent with S.C. Code Ann. § 58-27-865 (Supp. 2012). The Settling Parties agree that any and all challenges to Duke's historical fuel costs and revenues for the period ending May 2013, are not subject to further review; however, outages not complete as of May 31, 2013, and outages where final reports (Company, contractor or government reports or otherwise) are not available may be subject to further review in the review period during which the outage is completed or when the report(s) become available. Further, fuel costs for periods beginning on June 1, 2013, and thereafter shall be open issues for determination by the Commission in future fuel cost proceedings and will continue to be trued-up against actual costs in such proceedings held under the procedure and criteria established in S.C. Code Ann. § 58-27-865 (Supp. 2012).

- (g) The Settling Parties agree that to keep ORS and Duke's customers informed of the over/(under)-recovery balances related to fuel costs by way of Duke's commercially reasonable efforts to forecast the expected fuel factors to be set at its next annual fuel proceeding, the Company will provide ORS, and where applicable, its customers with: (i) copies of the monthly fuel recovery reports currently filed with the Commission and ORS, modified to show the monthly over/(under)-recovery and cumulative balances through the end of the forecast period; and, (ii) forecasts, in the fourth quarter of the calendar year prior to the next annual fuel proceeding and in the second quarter of the calendar year of the Company's next annual fuel proceeding, of the expected fuel factors to be set at its next annual fuel proceeding based upon Duke's historical over/(under)-recovery to date and Duke's forecast of prices for uranium, natural gas, coal, oil, and other fuel required for generation of electricity.

#### **IV. CONCLUSION AND ORDER**

Having heard the testimony of the witnesses and representations of counsel and after careful review of the Revised Settlement Agreement, the Commission finds that approval of the terms set out in the Revised Settlement Agreement is consistent with the standards for fuel review proceedings conducted pursuant to S.C. Code Ann. § 58-27-865 (Supp. 2012) and is supported by the substantial evidence in the record. The Revised Settlement Agreement's terms allow recovery in a precise and prompt manner while assuring public confidence and minimizing abrupt changes in charges to customers. As

such, approval of the Revised Settlement Agreement is in the public interest as a reasonable resolution of the issues in this case. Additionally, we find that the methodology for determining the environmental cost component of the fuel factors used by Duke in this proceeding, while not binding in future proceedings, is consistent with the statutory requirements of S.C. Code Ann. § 58-27-865 (Supp. 2012) and is just and reasonable. We further find that the Revised Settlement Agreement's terms provide stabilization of the fuel factors, minimize fluctuations for the near future, and do not appear to inhibit economic development in South Carolina. Additionally, the Commission finds and concludes that the Revised Settlement Agreement affords the Parties with the opportunity to review costs and operational data in succeeding fuel review proceedings conducted pursuant to S.C. Code Ann. § 58-27-865 (Supp. 2012). Although the Revised Settlement Agreement was submitted after the hearing in this matter, the Commission concludes that no further testimony or hearing is required to support approval of the Revised Settlement Agreement.

IT IS THEREFORE ORDERED THAT:

1. The Revised Settlement Agreement attached hereto as Order Exhibit 1, and the pre-filed testimony of ORS's witnesses Gaby Smith and Michael L. Seaman-Huynh; Duke's witnesses David C. Culp, Robert J. Duncan, II, Joseph A. Miller, Jr., Kim H. Smith, and Sasha J. Weintraub; and SCEUC's witness Kevin W. O'Donnell, along with their respective exhibits, as entered into evidence, are accepted into the record in the above-captioned case without objection. Lastly, the oral testimony of the above

witnesses presented at the hearing on August 27, 2013, is also incorporated into the record of this case.

2. Duke shall set its fuel factor (excluding environmental costs) at 2.0144 cents per kWh effective for bills rendered on and after the first billing cycle for the month of October 2013, and continuing through the last billing cycle for the month of September 2014.

3. Duke shall set its environmental cost component factor at 0.0509 cents per kWh for the Residential customer class, 0.0302 cents per kWh for the General Service/Lighting customer class, and 0.0193 cents per kWh for the Industrial customer class for bills rendered on or after the first billing cycle for the month of October 2013, and continuing through the last billing cycle for the month of September 2014.

4. The Settling Parties shall abide by all terms of the Revised Settlement Agreement.

5. Duke shall file an original of the South Carolina retail Adjustment for Fuel Cost and all other retail tariffs within ten (10) days of receipt of this Order with the Commission and ORS incorporating our findings herein.

6. Duke shall comply with the notice requirements set forth in S.C. Code Ann. § 58-27-865 (Supp. 2012).

7. Duke shall account monthly to the Commission and ORS for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit. ORS shall review the cumulative recovery account.

8. Duke shall submit monthly reports, within forty-five (45) days of the end of each month, to the Commission and ORS of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 Megawatts or greater.

9. Last, we request that the Office of Regulatory Staff perform an investigation and report back within 60 days on the disparity between the impact of the recovery of Duke's fuel costs in South Carolina as compared to those in North Carolina for our last review period.

10. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



G. O'Neal Hamilton, Chairman

ATTEST:



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Nikiya Hall, Vice Chairman

(SEAL)



**BEFORE**

**THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA**

**DOCKET NO. 2013-3-E**

**September 19, 2013**

**RECEIVED**

SEP 19 2013

PSC SC  
MAIL / DMS

IN RE: )  
Annual Review of Base Rates for Fuel ) **REVISED**  
Costs of Duke Energy Carolinas, LLC ) **SETTLEMENT AGREEMENT**  
\_\_\_\_\_)

This Revised Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff ("ORS"), Duke Energy Carolinas, LLC ("Duke" or the "Company") and the South Carolina Energy Users Committee ("SCEUC") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina ("Commission") pursuant to the procedures in S.C. Code Ann. §58-27-865 (Supp. 2012), and the Parties to this Revised Settlement Agreement are parties of record in the above-captioned Docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests;

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

1. As a compromise to positions advanced by Duke, ORS and SCEUC, the Parties agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the agreement of the Parties. This Revised Settlement Agreement is being

agreed to after the hearing before the Commission on this matter and after submission to the Commission of proposed orders and a legal memorandum on September 16, 2013. The parties agree to cooperate in submitting to the Commission a revised joint proposed order reflecting the matters agreed to in this Revised Settlement Agreement. The parties also agree that they will request that the Commission only consider the revised joint proposed order and not the proposed orders and the memorandum submitted on September 16, 2013.

2. ORS analyzed the cumulative over-recovery of base fuel costs that Duke had incurred for the period June 2012 through May 2013 totaling \$25,476,878. The May 2013 balance includes an over-recovery adjustment of \$1,699,158 for replacement power due to an extended outage and an over-recovery adjustment of \$106,371 to account for minimum weight penalties credited back to South Carolina ratepayers. ORS added the estimated (under)-recovery of (\$7,906,048) for the month of June 2013, the estimated (under)-recovery of (\$7,595,304) for the month of July 2013, the estimated (under)-recovery of (\$9,940,556) for the month of August 2013, and the estimated (under)-recovery of (\$1,855,230) for the month of September 2013 to arrive at a cumulative (under)-recovery of (\$2,683,314) as of September 2013. September 2013 also includes an (under)-recovery adjustment for the sharing of fuel-related merger savings with Duke Energy Progress, Inc. of (\$863,054). Duke's cumulative over-recovery for base fuel costs, per its testimony in this Docket, as of May 2013 totals \$23,670,477, and as of September 2013 the estimated cumulative (under)-recovery totals (\$4,489,948). The difference between Duke's and ORS's cumulative over-recovery as of actual May 2013 totals \$1,806,401. The difference between Duke's and ORS's estimated cumulative (under)-recovery as of September 2013 totals \$1,806,634, which is due to adjustments and rounding.

3. ORS analyzed the cumulative over-recovery of environmental costs that Duke had incurred for the period June 2012 through May 2013 totaling \$6,084,377. ORS added the estimated (under)-recovery of (\$654,928) for the month of June 2013, the estimated (under)-recovery of (\$1,137,202) for the month of July 2013, the estimated (under)-recovery of (\$1,118,896) for the month of August 2013 and the estimated (under)-recovery of (\$759,903) for the month of September 2013. Additionally, ORS added an over-recovery adjustment of \$156,402 for the month of July 2013, an over-recovery adjustment of \$154,972 for the month of August 2013 and an over-recovery adjustment of \$112,762 for the month of September 2013 to adjust for gypsum expenses that were incorrectly included in the Company's estimated figures, to arrive at an estimated cumulative over-recovery of \$2,837,584 as of September 2013. Duke's rounded cumulative over-recovery for environmental costs, per its testimony in this Docket, as of May 2013 totals \$6,084,403, and as of September 2013 the rounded and estimated cumulative over-recovery totals \$2,413,420. The difference between Duke's and ORS's cumulative over-recovery as of actual May 2013 totals \$26. The difference between Duke's and ORS's estimated cumulative over-recovery, as of September 2013, totals \$424,164 which is due to the adjustments for gypsum expenses and rounding.

4. The Parties agree to accept all recommendations in ORS witness Seaman-Huynh's testimony and the accounting adjustments as put forth in ORS witness Smith's pre-filed direct testimony related to the over/(under)-recovery of environmental costs. Additionally, the Company revised and updated forecasted gas prices, coal prices, and the July 2013 over/(under) collection to actual values, which are reflected in the South Carolina combined projected fuel factor addressed in Paragraph 7.

5. The Parties have agreed, solely for the purposes of this proceeding, to a settlement adjustment of \$106,371 in order to address Duke's minimum weight penalties relating to fuel transportation. The minimum weight penalty adjustment of \$106,371 will reimburse Duke's South Carolina retail customers their allocable share, regardless whether Duke is successful in a damages claim against the supplier. If Duke is successful in recouping the \$106,371 from the supplier, it will not be expected or required to return that amount to its South Carolina retail customers, as those customers already will have received that amount from Duke via the terms of this Settlement Agreement.

6. Duke agrees to reduce projected fuel costs by \$30 million in order to reduce the fuel rate during the one year billing period beginning October 1, 2013. Duke will be allowed to recover the actual over/under recovery balance beginning in October 2014. The parties agree that Duke will be allowed to charge and accrue interest on any deferred recovery amount. The parties agree that Duke will be allowed to charge and accrue interest on the amount deferred for recovery during the year that recovery is deferred. The interest will be charged and accrued on a monthly basis on the amount that the Company would have billed but for the deferral. The applicable interest rate used to calculate the carrying costs under this Revised Settlement Agreement is the rate of interest as of the first day of each month during the applicable period for the 3-year U.S. Government Treasury Note, as reported in the Wall Street journal, either in its print edition or on its website, plus an all-in spread of 65 basis points (0.65 percentage points). The applicable period during which carrying costs may be applied pursuant to this Revised Settlement Agreement begins October 1, 2013 and ends September 30, 2014. The total carrying costs rate to include the 65 basis points shall not exceed 6%.

7. The appropriate fuel factors for Duke to charge for the period beginning with the first billing cycle in October 2013 extending through the last billing cycle of September 2014 are listed below. The South Carolina Combined Projected Fuel Factor represents an increase from the current combined fuel factor.

Class of Service	SC Base Fuel Factor (cents/kWh)	SC Environmental Factor (cents/kWh)	SC Combined Projected Fuel Factor (cents/kWh)
Residential	2.0144	0.0509	2.0653
General/Lighting	2.0144	0.0302	2.0446
Industrial	2.0144	0.0193	2.0337

8. The Parties agree that the fuel factors as set forth in Paragraph 7 above are consistent with S.C. Code Ann. § 58-27-865 (Supp. 2012).

9. The Parties agree that the Company's use of magnesium hydroxide, calcium carbonate, and other emission-reducing reagents in its power plants reduce the Company's nitrogen oxide ("NO<sub>x</sub>") and sulfur dioxide ("SO<sub>2</sub>") emissions; therefore, the Parties agree that the costs associated with these chemicals and reagents should be included in the Company's Adjustment for Fuel and Variable Environmental Costs.

10. ORS thoroughly reviewed and investigated Duke's nuclear operations during the review period. As shown in ORS witness Seaman-Huynh's Exhibit MSH-2, Duke's nuclear fleet achieved an actual system capacity factor during the review period of 93.7%. Duke achieved this capacity factor notwithstanding the fact that it experienced five (5) scheduled refueling outages and three (3) forced outages during the review period. ORS reviewed all outages and noted that individual Company nuclear units have periodically experienced forced outage rates higher than the North American Electric Reliability Corporation average. S.C. Code Ann. § 58-27-865 states that:

There shall be a rebuttable presumption that an electrical utility made every reasonable effort to minimize cost associated with the operation of its nuclear generation facility or system, as applicable, if the utility achieved a net capacity factor of ninety-two and one-half percent or higher during the period under review. The calculation of the net capacity factor shall exclude reasonable outage time associated with reasonable refueling, reasonable maintenance, reasonable repair, and reasonable equipment replacement outages; the reasonable reduced power generation experienced by nuclear units as they approach a refueling outage; the reasonable reduced power generation experienced by nuclear units associated with bringing a unit back to full power after an outage; Nuclear Regulatory Commission required testing outages unless due to the unreasonable acts of the utility; outages found by the commission not to be within the reasonable control of the utility; and acts of God. The calculation also shall exclude reasonable reduced power operations resulting from the demand for electricity being less than the full power output of the utility's nuclear generation system.

Excluding all planned outage time, Duke's net capacity factor for the review period was 102.53%.

11. The Parties agree that in an effort to keep the Parties and Duke's customers informed of the over/(under)- recovery balances related to fuel costs and of Duke's commercially reasonable efforts to forecast the expected fuel factor to be set at its next annual fuel proceeding, Duke will provide to ORS, and where applicable, its customers the following information:

- a) copies of the monthly fuel recovery reports currently filed with the Commission and ORS, modified to show the monthly over/(under)-recovery and cumulative balances through the end of the forecast period; and,
- b) forecasts of the expected fuel factor to be set at its next annual fuel proceeding based upon Duke's historical over/(under)-recovery to date and Duke's forecast of prices for uranium, natural gas, coal, oil and other fuel required for generation of electricity. Such forecasts will be provided in the 4th quarter of the calendar year prior to the next annual fuel proceeding and in the 2nd quarter of the calendar

year of the Company's next annual fuel proceeding. Duke will use commercially reasonable efforts in making these forecasts. To the extent that the forecast data required hereunder is confidential, any party or customer that requests forecasted fuel data will have to sign a non-disclosure agreement agreeing to protect the data from public disclosure and to only disclose it to employees or agents with a need to be aware of this information.

12. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Revised Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Revised Settlement Agreement and the terms and conditions contained herein.

13. The Parties further agree that, except as noted below, any challenges to Duke's historical fuel costs recovery for the period ending May 31, 2013, are not subject to further review; however, the projected fuel costs for periods beginning June 1, 2013, and thereafter shall be open issues in future fuel cost proceedings held under the procedure and criteria established in S.C. Code Ann. § 58-27-865.

14. With regard to plant outages not complete as of May 31, 2013, and plant outages where final reports (Company, contractor, government reports or otherwise) are not available, the Parties agree that ORS retains the right to review the reasonableness of plant outage(s) and associated costs in the review period during which the outage is completed or when the report(s) become available.

15. The Parties agree this Revised Settlement Agreement is reasonable, in the public interest, and in accordance with law and regulatory policy.

16. Further, ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (Supp. 2012). S.C. Code § 58-4-10(B)(l) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) Concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) Economic development and job attraction and retention in South Carolina; and
- (3) Preservation of the financial integrity of the State’s public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.”

17. This written Revised Settlement Agreement contains the complete agreement of the Parties. The Parties agree that by signing this Revised Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings. If the Commission declines to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty, within three (3) days of receiving notice of the decision, by providing written notice of withdrawal via electronic mail to all parties in that time period.

18. This Revised Settlement Agreement shall be effective upon execution of the Parties and shall be interpreted according to South Carolina law.

19. This Revised Settlement Agreement in no way constitutes a waiver or acceptance of the position of any Party concerning the requirements of S.C. Code Ann. § 58-27-865 (Supp. 2012) in any future proceeding. This Revised Settlement Agreement does not establish any



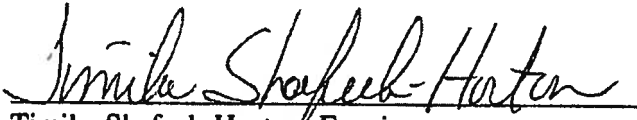
precedent with respect to the issues resolved herein and in no way precludes any Party herein from advocating an alternative methodology under S.C. Code Ann. § 58-27-865 (Supp. 2012) in any future proceeding.

20. This Revised Settlement Agreement shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capacities), subsidiaries, affiliates, parent corporations, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

21. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Revised Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the Revised Settlement Agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Revised Settlement Agreement.

**[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]**

**Representing Duke Energy Carolinas, LLC**



Timika Shafeek-Horton, Esquire

Brian L. Franklin, Esquire

**Duke Energy Carolinas, LLC**

550 South Tryon Street, DEC 45A

Charlotte, North Carolina 28202

Tel.: (704) 382-6373

(980) 373-4465

Fax: (704) 382-8137

Email: Timika.shafeek-horton@duke-energy.com

Brian.Franklin@duke-energy.com

Frank R. Ellerbe, III, Esquire

**Robinson, McFadden & Moore, P.C.**

Post Office Box 944

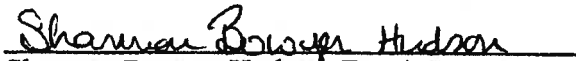
Columbia, South Carolina 29202-0944

Tel.: (803) 779-8900

Fax: (803) 252-0724

Email: fellerbe@robinsonlaw.com

**Representing the South Carolina Office of Regulatory Staff**



Shannon Bowyer Hudson, Esquire

Courtney D. Edwards, Esquire

**South Carolina Office of Regulatory Staff**

1401 Main Street, Suite 900

Columbia, South Carolina 29201

Tel.: (803) 737-0889

(803) 737-8440

Fax: (803) 737-0895

Email: [shudson@regstaff.sc.gov](mailto:shudson@regstaff.sc.gov)

[cedwards@regstaff.sc.gov](mailto:cedwards@regstaff.sc.gov)

**Representing the South Carolina Energy Users Committee**



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Scott Elliott, Esquire  
**Elliott & Elliott, P.A.**  
1508 Lady Street  
Columbia, SC 29201  
Phone: (803) 771-0555  
Fax: (803) 771-8010  
Email: [selliott@elliottlaw.us](mailto:selliott@elliottlaw.us)